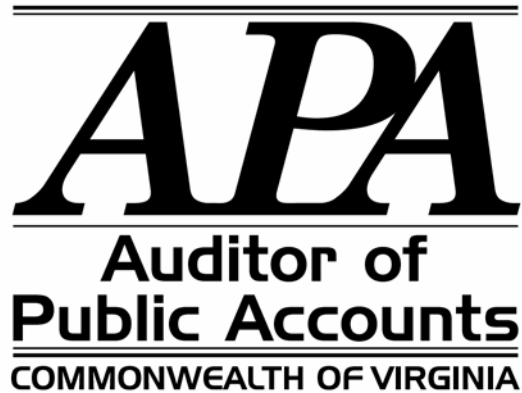


**VIRGINIA OUTDOORS FOUNDATION**

**REPORT ON AUDIT  
FOR THE PERIOD  
JULY 1, 2003 TO DECEMBER 31, 2004**



## **AUDIT SUMMARY**

This report includes findings that recommend that the Virginia Outdoors Foundation work to establish sound business practices and strong internal controls to protect the resources of the Foundation, to ensure proper financial reporting and to establish information technology controls. We found internal control weaknesses in the Department's fiscal and administrative operations that are inherent given the size of the Foundation, the geographic separation of key employees and the lack of written policies and procedures.

While the executive director has begun addressing these issues, we believe some more effective and potentially less costly alternatives exist. Simply stated, we believe the single largest problem facing the Foundation is developing, maintaining and supervising the staff to perform and maintain a system of internal controls for administrative, finance and human resources.

A practical solution to this on-going problem is examining one of the following three alternatives.

- Contract the administrative, finance and human resources out to a contractor who would have a day to day relationship with the executive director and his management team, but would report directly to the Board for policy issues and approval of certain transactions.
- Partner with another not for profit organization, who would provide same services as the contractor, but would have some closer understanding of the Foundation's operations.
- Have a memorandum of understanding with a state agency or institution to perform these services similar to a contractor.

Whatever alternative the Board and executive director select, they will need to ensure that the arrangements undertaken address the following internal control issues. These internal control issue solutions need to consider more than the form of the problem, but provide for true long-term accountability.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AGENCY HIGHLIGHTS	1-2
INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS	2-6
INDEPENDENT AUDITOR'S REPORT	7-8
OFFICIAL RESPONSE	9
AGENCY OFFICIALS	10

## **AGENCY HIGHLIGHTS**

The Virginia Outdoors Foundation created in 1966 by the General Assembly has a Board of Trustees appointed by the Governor. The Foundation promotes the preservation of open space lands and encourages gifts of money, securities, land and other property to preserve the natural, scenic, historic, open-space and recreational areas of the Commonwealth. The primary mechanism for accomplishing the Foundation's mission is obtaining open space easement, of which the Foundation currently holds easement on over 288,893 acres in 87 localities and owns approximately 3,500 acres of gifted open land plus one historic site.

The Foundation also administers funds in the Open Space Lands Preservation Trust Fund. The 1997 General Assembly created the Fund to assist landowners with the costs of conveying conservation easements and to purchase all or part of the value of easements.

The Foundation's assets and liabilities, respectively, at June 30, 2004 were \$8,100,109 and \$117,747. Assets consist of \$1.3 million in cash and investments, and \$6.7 million in equipment, open land and one historic site, net of depreciation. Income and expenses for fiscal year 2004 totaled \$760,862 and \$996,650, respectively. In addition to General Assembly appropriations for fiscal year 2004, the Foundation received funding from donations, rental and interest income. For fiscal year 2005, the Foundation's funding has increased significantly due to increased appropriations combined with a new recordation fee for real estate deeds. These funds should allow the Foundation to operate with a net operating income at the end of fiscal year 2005 as opposed to the operating losses experienced in fiscal years 2003 and 2004.

The Foundation also owns approximately 3,500 acres of open land and one historic site. Some of these sites help meet a demand for public access and low-intensity recreational use at negligible cost to the Commonwealth.

- Aldie Mill Historic Site, Loudoun County
- Blue Ball Mountain, Clarke County
- House Mountain, Rockbridge County
- Kohl's Island, Northumberland County
- Bull Run Mountains, Fauquier and Prince William Counties: 2,500 acres

With the ever growing number of easements acquired by the Foundation, the Foundation takes on a greater stewardship and monitoring role. The Foundation staff responds to questions from landowners, prospective buyers, real estate agents and attorneys on an ongoing basis and regularly engages in the review of forestry plans, building plans, and Virginia Department of Transportation road projects to make sure easement lands remain protected. This stewardship function of the conservation easement program is crucial to its overall success.

With the increase in stewardship responsibility as well as the continued goal to accept new easements, the Foundation recognizes that their human, material and technology resources should grow along with their increased responsibilities for protecting open land space. However, the Foundation is facing critical decisions as they determine how to best structure their organization and implement sound business practices that will support their mission and growth in years to come. The five year trend data on the following page shows that the Foundation has received more than half of their total easement acres in the past five years. The Foundation anticipates that this trend will continue as recently enacted state and federal tax incentives provide even greater benefit to easement donors.

### **VOF Easements By Year**

<u>Year</u>	<u>Number of Easements</u>	<u>Acreage</u>
2004	198	41,603
2003	131	22,664
2002	211	36,976
2001	155	22,702
2000	<u>188</u>	<u>28,726</u>
5 Year Total	<u>883</u>	<u>152,671</u>
Overall Total	<u>1624</u>	<u>283,712</u>

If the Foundation does not ensure future funding to adequately monitor the existing easements held, in addition to the related administrative costs, the Foundation could be risking their status as a qualified conservation organization as defined by the Internal Revenue Service. Landowners must use a qualified conservation organization to receive a tax credit for their easements. The Foundation should determine the true costs of reviewing, accepting and monitoring new easements. With that knowledge, the Foundation can make better informed decisions about how to manage their growing stewardship program.

The Board of Trustees should develop a process that involves both management and the Board in setting policy, planning, and oversight functions. Additionally, the Board should set forth its expectation of management and the information it needs to review to exercise its oversight responsibilities.

### **INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS**

Historically, the Foundation has had only a few staff and relied on part time personnel and volunteers to help with the administrative functions and finances of the organization. Additionally, the Foundation has also had access to state personnel to assist in the maintenance and upkeep of its records. As the Foundation expands, the need to improve internal controls in the area for finance, administration and human resources expands with these additional duties.

Considering the nature of the Foundation and its limited activities in the past, the following internal controls issues represent the need to address this expansion with the need to have accountability. However, we believe that several alternatives exist for the Foundation to address these issues, without solely attempting to hire and manage additional internal staff.

While the executive director has begun addressing these issues, we believe some more effective and potentially less costly alternatives exist. Simply stated, we believe the single largest problem facing the Foundation is developing, maintaining and supervising the staff to perform and maintain a system of internal controls for administrative, finance and human resources.

A practical solution to this on-going problem is examining one of the following three alternatives.

- Contract the administrative, finance and human resources out to a contractor who would have a day to day relationship with the executive director and his management team, but would report directly to the Board for policy issues and approval of certain transactions.

- Partner with another not for profit organization, who would provide same services as the contractor, but would have some closer understanding of the Foundation's operations.
- Have a memorandum of understanding with a state agency or institution to perform these services similar to a contractor.

Whatever alternative the Board and executive director select, they will need to ensure that the arrangements undertaken address the following internal control issues. These internal control issue solutions need to consider more than the form of the problem, but provide for true long-term accountability.

#### Establish Policies and Procedures over Administrative, Financial and Human Resource Activities

The Foundation does not have a comprehensive written policies and procedures manual over their administrative, financial and human resource functions. The following provides evidence of the weaknesses identified as a result of the lack of written policies and procedures and in some cases the size of the organization.

- Bank Accounts: The Foundation needs to implement procedures to eliminate the duplicate checkbook registers maintained since the implementation of their automated financial system. Discrepancies between the checkbook registers went undetected and several bank statements were not reconciled to the automated system for up to eight months late. Additionally, the Foundation has not notified their banks that their funds are public deposits and appropriately reported to the Virginia Department of Treasury under the Virginia Security for Public Deposit Act.
- Inadequate Expense Voucher Documentation: We noted several expense vouchers with inadequate supporting documentation. In one instance, an employee submitted expense reimbursement requests for expenses incurred nearly nine months earlier in the prior fiscal year as well as receipts that included incorrect dates. In a second instance, an employee presented only summary billing information which did not support reimbursement of cellular telephone calls on an employee's personal phone.
- Small Purchase Charge Card: The charge card program delegates purchasing authority for small purchases to end users. The Foundation recently developed policies and procedures over the charge card program but we found them to be inadequate. Management should implement user agreements and procedures that address unallowable purchases, circumventing purchasing limits, tracking and reconciling purchases timely, purchase card security and consequences for failing to adhere to purchasing cards procedures.
- Gift Shop Operations: The Foundation operates a museum gift shop at the historic Aldie Mill. Currently, the Foundation relies upon the same employee to order inventory, collect cash sales and perform inventory counts. We found the inventory counts to be incomplete as to amounts and counts and used for no purpose as the Foundation does not record the inventory on its financial records or perform any analysis of the inventory compared to sales. Management should

establish written policies and procedures that ensure adequate separation of duties and accountability for all inventory items and cash sales.

- Fixed Assets Inventory: The Foundation lacks controls over their fixed asset inventory. The Foundation should establish policies and procedures to ensure ownership through the use of property tags, establish and maintain an accurate central record of all fixed assets, and ensure timely periodic inventory counts for comparison to central records. Additionally, the Foundation should evaluate its policy to capitalize all equipment purchases. The Foundation has not consistently applied this policy and may find it cost beneficial to establish a minimum capitalization threshold where there is need to only capitalize and maintain a central equipment record for purchases meeting or exceeding the threshold. Management should establish written policies and procedures that ensure adequate purchasing, recording, monitoring and disposal of all fixed assets.
- Financial Reporting: The Foundation's financial statements do not properly reflect all activities of the Foundation. We found the following areas of concern:
  - The Foundation does not depreciate property improvements.
  - The Foundation continues to report one petty cash account that was eliminated and reports a second petty cash account as assigned to an employee that no longer works at the Foundation. The Foundation has turned these funds over to another employee but has done so without a signed custodian form.
  - The Foundation reports compensated absences when reporting to the Department of Accounts, but fails to record them on their internal financial reporting system.
  - The Foundation received funds from two other state entities for the purpose of purchasing an easement as well as paying expenses related to accepting the easement. However, the Foundation did not record the income from these grants or the expenses related to acquiring the easement in their financial statements.
  - The Foundation does not report purchased easements as assets to the Department of Accounts or on their internal financial reports. The Foundation should include easement values at cost in accordance with GASB 34.

The Foundation should implement policies and procedures to ensure proper reporting to the Department of Accounts as well as their internal financial reporting system.

- Human Resources Activities: The Foundation should establish written policies and procedures to ensure proper controls are established and maintained for critical human resources activities. Such a manual should include, but is not limited to:
  - adequate and updated job descriptions for all employees,
  - description of all fringe benefits offered to employees,
  - adequate leave accrual and usage documentation,
  - timesheet standards, usage and certifications,
  - hiring, termination and retirement of employees, and
  - salary structures and bonus plans, if any.

- Automated Leave System: The Foundation maintains an automated leave system however, there is not an adequate audit trail to support leave accruals, usage and adjustments. We found several instances of unrecorded leave usage during the correct pay period due to timesheet errors or failure to submit timesheets timely. While subsequent adjustments occurred, the system's audit trail was insufficient to confirm the adjustments to the balances. We also found instances of incorrect leave accrual rates in the automated system. The Foundation should determine if improvements in the system are possible or establish compensating controls to ensure the appropriate audit trail exists.
- Compensatory leave: The Foundation's compensation leave earning policy is complex and difficult for employees to apply to their timesheet. There were many instances where employees incorrectly calculated compensatory leave. The Foundation must rely on supervisor reviews to catch any errors. While supervisors caught most errors, through the administrative review process, the Foundation should consider the effort needed to make these calculations compared to the benefit. The Foundation does not maintain compensatory leave in the automated leave system due to system limitations. The Foundation should consider ways to simplify and automate the tracking of the compensatory leave.

As the Foundation continues to grow, it is imperative that the Foundation establish sound business practices. Management should be providing a comprehensive policies and procedures manual that provides appropriate internal controls over all aspects of administrative, financial and human resource activities. Where the Foundation finds that separation of duties is limited due to geographic location or staff size then the Foundation must include strong management oversight as a compensating control. These controls too must be in writing and enforced to be effective.

#### Improve Security Access over Financial System

The Foundation has written procedures outlining which employees have access to the automated financial system. Establishing appropriate security policies is a key step for ensuring that access to data is properly restricted. However, the security access levels currently in place presents a potential security risk to the system as noted below.

- Three employees share an administrator password, which provides complete access to all facets of the automated financial system, including general ledger, leave balances, payroll and security functions. It is critical that employees not share passwords, especially those that can significantly affect the recording of transactions.
- The deputy director maintains administrator access to the financial system as well as custody of Foundation funds. Custody of funds and recordkeeping responsibilities are incompatible duties and result in a lack of separation of duties giving one individual both access to assets and the ability to change the records without detection. The Foundation should assign the duties to different employees.
- The Foundation attempted to better secure access to payroll functions but the new process relies upon the administrator user to change the password for the newly created payroll ID on a monthly basis. The Foundation should consider other options or compensating controls to avoid this process.



The Foundation acknowledges the importance of security over the automated financial system. We encourage them to continue improving their security processes through the development of a comprehensive information technology policies and procedures manual. The manual should incorporate general and application controls over all technology based systems. Failure to properly implement policies and procedures could lead to improper controls placed on the Foundation's systems and allow for unauthorized access, placing the integrity and completeness of the data stored on the system at risk.



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218**

May 13, 2005

The Honorable Mark R. Warner  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Lacey E. Putney  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE

We have audited the financial records and operations of the Virginia Outdoors Foundation (Foundation) for the period from July 1, 2003 to December 31, 2004. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

### Audit Objectives, Scope and Methodology

Our audit's primary objective was to evaluate the accuracy of the Foundation's financial transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2004. In support of this objective, we evaluated the accuracy of recording financial transactions in the Foundation's financial system, reviewed the adequacy of the Foundation's internal control, tested for compliance with applicable laws, regulations, contracts and grant agreements, and reviewed corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Foundation's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws, regulations, contracts, and grant agreements. Our review encompassed controls over the following significant cycles, classes of transactions and account balances.

- Revenues
- Expenditures, including Payroll
- Fixed Assets
- Cash

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit

procedures. We performed audit tests to determine whether Foundation's controls were adequate, had been placed in operation and were being followed.

Management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws, regulations, contracts and grant agreements. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

#### Audit Conclusions

We found that Foundation properly stated, in all material respects, the selected financial records reviewed in support of the Comprehensive Annual Financial Report for the Commonwealth of Virginia listed in the scope section of this report.

We noted certain matters involving internal control and its operation that we consider to be reportable conditions relative to the Comprehensive Annual Financial Report for the Commonwealth. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Foundation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. These reportable conditions are described in the subsection entitled "Internal Control Findings and Recommendations." We believe that neither of the reportable conditions is a material weakness.

The results of our tests of compliance with applicable laws, regulations, contracts and grant agreements disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information and use of the Governor and General Assembly, management, and citizens of the Commonwealth of Virginia and is a public record.

#### EXIT CONFERENCE

We discussed this letter with management at an exit conference held on May 24, 2005.

AUDITOR OF PUBLIC ACCOUNTS

WJK:aom  
aom:34

# Virginia Outdoors Foundation

Richmond Office  
101 N. 14<sup>th</sup> St., 17<sup>th</sup> Flr, Richmond, VA 23219  
(804) 225-2147 FAX (804) 371-4810

[www.virginiaoutdoorsfoundation.org](http://www.virginiaoutdoorsfoundation.org)



June 3, 2005

*Encouraging the preservation of open space*

Walter J. Kucharski  
Auditor of Public Accounts  
101 N. 14<sup>th</sup> Street, 8<sup>th</sup> Floor  
Richmond, Virginia 23219

Dear Mr. Kucharski:

On behalf of the Virginia Outdoors Foundation (VOF) and in my capacity as Executive Director, I have reviewed the findings and recommendations provided by the Auditor of Public Accounts in this report. I generally concur with the findings and recommendations for the audit review period July 2003 through December 2004. VOF staff will work under the auspices of the Office of the Secretary of Natural Resources and in close collaboration with the Department of Conservation and Recreation to address all the audit findings and recommendations and to develop and implement administrative policies and financial accounting and reporting systems that meet generally accepted standards for governmental transactions and reporting.

Sincerely,

G. Robert Lee  
Executive Director

GRL/pac

Cc: The Honorable W. Tayloe Murphy, Jr., Secretary of Natural Resources  
Joseph H. Maroon, Director of the Department of Conservation and Recreation  
Frank Kilgore, Chair, VOF Board of Trustees  
Sherri H. Wyatt  
Carol MacVaugh

VIRGINIA OUTDOORS FOUNDATION

BOARD OF TRUSTEES

Frank Kilgore, Chairman

J. William Abel-Smith  
M. Rupert Cutler  
Frank M. Hartz  
Katherine L. Imhoff  
Charles H. Seilheimer, Jr.  
Jeffrey K. Walker

AGENCY OFFICIALS

G. Robert Lee, Executive Director